IOWA UTILITIES BOARD

Docket No.: RPU-2012-0002
(TF-2012-0374)
Utility: Interstate Power and Light Company
File Date/Due Date: 5/25/12-3/20/13
Memo Date: October 31, 2012

TO: The Board

FROM: Robert LaRocca (Team Leader)
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SUBJECT: Review of Settlement

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I. Background

On May 25, 2012, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) proposed gas tariffs identified as TF-2012-0374 and TF-2012-0375 pursuant to Iowa Code chapter 476 (2011). In TF-2012-0374, IPL proposed to increase its Iowa gas rates to produce a permanent annual jurisdictional revenue increase of approximately $14,785,156, or an overall annual revenue increase of 5.6 percent. In TF-2012-0375, IPL filed proposed gas tariffs designed to produce annual revenue increase of approximately

$8,612,094 on a temporary basis. The temporary gas tariffs became effective June 4, 2012, pursuant to Iowa Code § 476.6(10). IPL also filed prepared testimony, exhibits, and information required by 199 IAC chapter 26 in support of its general rate application. The general rate increase application was docketed as Docket No. RPU-2012-0002.

On June 13, 2012, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an objection to the rate application and a request that the application be docketed. Consumer Advocate stated that the application is voluminous and complex and will require a thorough investigation.

On June 22, 2012, the Board issued an order in Docket No. RPU-2012-0002 in which it suspended the proposed tariffs in TF-2012-0374, established a procedural schedule, and scheduled a hearing to consider the general rate increase request. The procedural schedule established a date for petitions to intervene of July 17, 2012. On July 16, 2012, Archer Daniels Midland Company and Equistar Chemicals, L.P. (Iowa Consumers Group) filed a petition to intervene. Attorneys for the Iowa Consumers Group also filed a request to appear before the Board pro hac vice.

On July 30, 2012, the Board issued an order granting Iowa Consumers Group intervention, granting the requests to appear pro hac vice, and requesting additional information from IPL. On August 15, 2012, IPL filed the additional information requested by the Board. On August 16, 2012, IPL, Consumer Advocate, and Iowa Consumers Group filed a Settlement Agreement that purports to resolve all of the outstanding issues regarding the general rate application. The parties to the Settlement Agreement request that the Board approve the Settlement Agreement in its entirety and cancel the procedural schedule, including the hearing, or schedule an earlier hearing to address any questions the Board may have.

On September 21, 2012, the Board issued an order requesting IPL and the other parties to the Settlement Agreement to provide responses to Board questions about certain revised tariff provisions agreed to in the Settlement. On October 5, 2012, IPL filed responses to the September 21, 2012, order.

Board staff summarizes the Settlement Agreement and IPL's October 5, 2012, responses below.

II. Settlement Agreement

The substantive agreements set out in the Settlement Agreement are as follows:

1. IPL filed an initial request for an increase in natural gas rates of $14,785,156 based upon a return on equity of 10.9 percent. IPL implemented a temporary increase in natural gas rates on June 4,

2012, in the annual amount of $8,612,094. The Settlement Agreement is designed to resolve all issues.

2. The Settlement Agreement shall not become effective unless and until the Board enters an order approving the Settlement Agreement in its entirety without condition or modification.

3. IPL's natural gas rate base for the purposes of the Settlement Agreement is $254,781,749. IPL's return on equity is 10.0 percent and, after reflecting parent company debt, IPL's overall rate of return for its rate base is 7.764 percent.

4. The Parties agree that IPL shall be entitled to an annual Iowa jurisdictional natural gas increase in revenue in the amount of $10,500,000 based on a total Iowa natural gas revenue requirement of $273,619,813. The Parties agree that the revenue requirement will not be adjusted to reflect either IPL's actual rate case expense or the amounts assessed by either the Board or Consumer Advocate related to the rate case. The Parties agree that IPL should not be required to make any filings pursuant to 199 IAC 26.4.

5. The Parties agree that if the Board enters an order approving the Settlement Agreement in its entirety without condition or modification, no refund shall be due to any of IPL's customers pursuant to the Corporate Undertaking.

6. The Parties agree that the increase in the retail revenue requirement should be allocated to IPL's major customer classes on an across-the-board uniform percentage of 12.95 percent to the non-fuel non-EECR revenues resulting in an overall increase of 3.99 percent on a total bill basis. The Parties further agree to the following monthly customer charges:

Residential Customer Charge	$13
General Service Class	$30
Large General Service	$225

In addition, the Parties also agree that the Board should approve the proposed tariff language changes to IPL's Pipeline Corridor Transportation Service and Transport of Customer-Owned Gas tariffs and proposed changes to the interruptible provisions of the General Service and Large General Service tariffs proposed in IPL's initial application. The parties also agree that the Board should approve IPL's updates to the Gas Service Agreement and the Gas Transportation Agreement.

7. The Parties agree that the Board should approve the proposed Tax Benefit Rider (TBR) for an initial three years subject to the following changes: (1) The TBR should be applicable to all customer classes on an across-the-board basis; and (2) The specific TBR credit amounts to be applied, and the estimated amounts to be flowed through to the customer classes through the TBR are provided in Attachment C to the Settlement Agreement. The parties also agree that after the initial three year period, there should be a reconciliation.

III. Legal Standards

199 IAC 7.18

Parties to a contested case may propose to settle all or some of the issues in the case. The Board or Presiding Officer will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest. Board adoption of a settlement constitutes the final decision of the Board on issues addressed in the settlement.

IV. Cost of Capital

In the Settlement Agreement, the parties agreed to a 10 percent return on equity and 7.764 percent overall rate of return. The overall rate of return reflects the double leverage calculation. Below is IPL's capital structure included in Attachment A, Settlement Agreement Schedule E, page 1.

DOUBLE LEVERAGE
THE COST OF CAPITAL FOR A REGULATED SUBSIDIARY
OF A HOLDING COMPANY

Alliant Energy Corporation

	Amount	Ratio	Cost Rate	Weighted Cost
Long-term Debt	$248,582,819	7.693%	4.247%	0.327%
Common Equity	$2,982,651,857	92.307%	10.000%	9.231%
Total	$3,231,234,676	100.000%		9.557%

Interstate Power and Light Company

	Amount	Ratio	Cost Rate	Weighted Cost
Long-term Debt	$1,335,725,661	46.213%	5.770%	2.666%
Preferred Stock	$144,599,935	5.003%	8.688%	0.435%
Common Equity	$1,410,069,767	48.785%	9.557%	4.663%
Total	$2,890,395,363	100.000%		7.764%

Return on Equity

IPL witness Avera filed testimony regarding the appropriate return on equity for IPL, and his analysis on this issue is all that is available in the record due to the timing of the Settlement Agreement. Mr. Avera recommended a return on equity of 10.9 percent. This was based on three different models[1] as well as the expected earnings approach and included a flotation cost adjustment of 20 basis points. Within the Settlement Agreement, the Parties agreed to a 10 percent return on equity, a 90 basis point reduction in IPL's proposed return on equity and a 40 basis point reduction in what IPL used for setting interim rates (i.e., 10.4 percent). Ten percent is the same return that the Board approved in IPL's last electric rate case, Docket No. RPU-2010-0001, dated January 10, 2011. MidAmerican, in Docket No. RPU-2012-0001, also used 10 percent to determine its revenue deficiency, and 10 percent was ultimately included as the threshold in the settlement approved in that case. It also appears to be in line with returns granted in rates cases that were published in *Public Utility Fortnightly*'s 2011 Rate Case Survey (November 2011) and approved for the electric companies for the time period December 2010 to November 2011 as presented in MidAmerican's response filed April 2, 2012 (i.e., average return was 10.15 percent).

Capital Structure

In the record, IPL used a thirteen-month average capital structure adjusted to reflect a September 2011 to September 2012 test year and used embedded cost rates for long-term debt and preferred stock. This is consistent with prior Board practice and what was done in IPL's last electric rate case. Because of the timing of IPL's current rate case filing, IPL had to estimate values for the months of April 2012 to September 2012. IPL was planning to update the estimates with actual values when they became available.

The capital structure included in the Settlement Agreement is very similar to the one proposed by IPL in the full case. For example, the capitalization ratio for long-term debt was 46.180 percent in the rate case and 46.213 percent in the Settlement Agreement, and the common equity ratio was 48.720 percent in the rate case and 48.785 percent in the Settlement Agreement. Staff believes that the slight differences are attributed to the Parties reflecting actual information that was available at the time of the Settlement Agreement.

The weighted average cost of capital IPL recommended the Board approve was 8.47 percent. As shown above, the settled weighted average cost of capital is 7.764 percent. This reflects the reduction in the cost of long-term debt from 5.88 percent to 5.77 percent, the reduction in the return on equity as discussed above, and the inclusion of the double leverage adjustment.

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[1] Mr. Avera uses the discounted cash flow model, the capital asset pricing model, and the risk premium method.

Double Leverage

In Mr. Avera's direct testimony, pages 27 to 36, he argues against the application of double leverage. However, as part of the Settlement Agreement, the Parties agree to apply double leverage. This is consistent with past Board precedent and consistent with the Board's decision in IPL's last electric rate case, Docket No. RPU-2010-0001.

Staff finds that the overall cost of capital is reasonable as part of the overall settlement.

V. Settlement Rate Design

The Settlement Agreement does not adopt a class cost of service study, but instead specifies an overall increase of $10.5 million (Article VII)[2] to be applied as a uniform percentage increase of 12.9 percent across customer classes based on class non-fuel and non-EECR rate revenues (Article X).[3] The uniform percentage approach is reasonable and consistent with previous Board decisions. This results in the following increases in total revenue, including fuel and EECR revenues (Settlement Attachment B):

Customer Class	Proposed Final Increase	Percent Increases in Total Revenue
Residential	$ 6,325,115	4.19%
General Service	$ 3,127,047	3.55%
Large General Service	$ 875,278	3.42%
LGS-Contract Demand	$ 144,674	7.79%
Total Revenue from Class Rates	$ 10,472,114	3.93%
Other Revenues	$ 28,803	
Total Revenue	$ 10,500,917	3.99%

[2] This is about $4.3 million lower than the final increase initially proposed by IPL.

[3] Excluding revenues from non-fuel and non-EECR flex discount rates, and transportation nominating fees and telemetering charges, which are all left unchanged (Settlement Attachment B).

The Settlement Agreement also specifies the following customer charge increases (Article X):

	Pre-Case	Settlement	Percent Increase
Residential	$10.00	$13.00	30.0%
General Service	$19.94	$30.00	50.5%
Large General Service	$182.53	$225.00	23.3%

These class customer charge increases are paired with the following changes in each class's volumetric per-therm rates (Settlement Attachment B):

	Pre-Case	Settlement	Percent Increase/ (Decrease)
Residential	$0.16970	$0.16445	(3.1%)
General Service	$0.16280	$0.16322	0.3%
Large General Service	$0.06730	$0.07554	12.2%

For the LGS-Contract Demand class, the demand rate and volumetric per-therm rate are both increased by a uniform 12.9 percent (Settlement Attachment B).

The Settlement Agreement adopts the billing units initially proposed by IPL without reference to any of the specific pro-forma adjustments proposed by IPL (Settlement Attachment B).

Although the Settlement Agreement does not adopt a CCOS, IPL's initial proposed CCOS nonetheless provides a basis for confirming the general reasonableness of the Settlement Agreement customer charges, based on the costs classified as customer costs in the CCOS.[4] That is, assuming the Settlement's $4.3 million reduction in IPL's initial revenue requirement were proportionately subtracted from class customer costs in the CCOS study (i.e., assuming the maximum possible impact on customer costs), the Settlement Agreement customer charges do not exceed the resulting class customer costs on an average per-customer basis.

VI. Temporary Rates

Temporary Rate Design. In its initial testimony, IPL stated that previous Board policy had been to make no rate design or tariff changes in temporary rates. IPL explained that for this reason, IPL had designed temporary rates in this case based on uniform percentage adjustment as accepted by the Board in Docket

[4] Customer costs are the costs of providing basic service to customers, regardless of the customer's usage level. These include the cost of the customer's service line, meter, meter reading, bill processing, and other customer service expenses. Customer costs do not include any portion of the utility's transmission and distribution system.

No. RPU-02-7 and had not implemented its proposed Tax Benefit Rider (TBR) as part of temporary rates.[5]

However, the temporary rates in Docket No. RPU-02-7 were NOT based on uniform percentage adjustment, but rather on the three rate design criteria for temporary rates first established 17 years ago in Docket No. RPU-95-8 (Interstate Power Company), and applied most recently in Docket No. RPU-2011-0001 (Iowa American Water Company).[6] In its "Order Granting Intervention, Permission to Appear Pro Hoc Vice, and Directing Responses," issued July 30, 2012, the Board noted that in the Docket No. RPU-02-7 case, it had adopted temporary rates generally based on the following three rate design criteria:

1. Rate codes with proposed final rate reductions receive no temporary increases;

2. No rate code receives a temporary increase larger than the increase proposed for final rates; and

3. The temporary increases are otherwise applied on a uniform percentage basis to monthly non-gas cost/non-EECR rate elements.

The Board asked IPL to explain either: a) how IPL's temporary rate design in this case met the Board's three criteria; or b) why the Board's three criteria should not be applicable in this case. In its Response filed August 15, 2012,[7] IPL chose alternative "b", explaining why it believed the Board's three criteria in Docket No. RPU-02-7 should not have been applicable in this case.

Before discussing IPL's Response further, it should be noted that IPL's initial rate design for final rates has since been superseded by the final Settlement Agreement rate design, which is based on uniform percentage adjustment of class non-fuel/non-EECR revenues. Also, the Settlement Agreement states there shall be no refunds to any of IPL's customers (Article IX), which would effectively eliminate any refunds based on the differences between final rates and temporary rates. Nonetheless, IPL's August 15, 2012, Response should be addressed for the purpose of providing guidance on future applicability of the Board's three criteria for temporary rate design.

In its Response, IPL argues that the Board should allow the use of different criteria for temporary rates such as uniform percentage adjustment when the utility chooses to use the "ten day rule" for implementing temporary rates without

[5] IPL witness Lenzen direct testimony, pp. 3-4.
[6] Docket No. RPU-2011-0001, "Order Setting Temporary Rates and Approving Corporate Undertaking," July, 28, 2011, pp. 18-22.
[7] Response No. 8, pp. 10-12.

Board approval under Iowa Code § 476.6(10)(b). IPL explains that the Board established its three criteria for temporary rate design prior to the legislature's enactment of Iowa Code § 476.6(10) (b) in 2004. During this period, temporary rates required Board approval within 90 days, which allowed for Board resolution of any conflicts among the three rate design criteria. For example, in Docket No. RPU-02-7, the Board stated:

> The Board recognizes that the application of the first two criteria may mean that some rates will not comply with the third criteria. The Board finds this is acceptable and unavoidable due to the interrelationships between full service and transportation rate codes and rate structures. Under the temporary rate design approved by the Board, some rate codes may receive more than the uniform increase.

IPL argues that the "ten day rule" under Iowa Code § 476.6(10) (b) does not allow opportunity for Board resolution of any potential conflicts among the three rate design criteria before implementation. Given this, and the potential need for Board interpretation in resolving these conflicts, a requirement of strict adherence to all three temporary rate design criteria should not be viewed as an established regulatory principle for purposes of Iowa Code § 476.6(10)(b). Requiring adherence to a regulatory principle that requires further Board interpretation essentially negates the legislative purpose of Iowa Code § 476.6(10) (b).

IPL's argument is not valid in this case because temporary rates could have been implemented in a straightforward manner using all three rate design criteria without any conflict or internal inconsistency. Due to the interrelationships between full service and transportation rate codes (as noted above in the Board's order in Docket No. RPU-02-7), application of the first rate design criterion (no temporary increases for rate codes with proposed final rate reductions) would have meant that General Service and Large General Service and their related transportation rate codes all would have received no increase in their common non-fuel/non-EECR temporary rates, since IPL's initial proposed final rate design showed final rate reductions for the transportation rate codes. Application of the third criterion would have meant uniform percentage increases of about 17 percent for the non-fuel/non-EECR rates of the Residential and LGS-Contract Demand rate codes; and since the proposed final increases for Residential and LGS-Contract Demand non-fuel/non-EECR rates were 24.5 percent and 68.4 percent, respectively, there would have been no conflict with the second criterion (no temporary rate code increases larger than the increases proposed for final rates).

Again, the Settlement Agreement would effectively eliminate any refunds based on the differences between final rates and temporary rates. The question is how the three criteria should be applied in future cases where the utility implements temporary rates without Board approval under Iowa Code § 476.6(10) (b).

IPL believes that as a matter of policy, in rate cases involving potential changes in class revenue allocation and rate design, temporary rate design should hold the existing class revenue allocations and rate designs static by limiting the changes to uniform percentage adjustments until the revenue shifts and rate design changes have been fully litigated. Prior to Docket No. RPU-95-8, uniform percentage adjustment had been the established regulatory principle for temporary rate design.[8] IPL suggests that if there are any proposed revenue shifts among customer classes as the result of a new class cost-of-service study (CCOS), as there initially were in this case, the first rate design criterion (no temporary increases for rate codes with proposed final rate reductions) and the second criterion (no temporary rate code increases larger than the increases proposed for final rates) would require the utility to reflect the revenue shifts in temporary rates as well, even before the CCOS has been fully litigated in the rate case. As described above, that would have happened only to a limited extent in this case. IPL also suggests that if the first criterion is applied, and a rate code with a proposed final reduction receives no temporary increase, that temporary revenue benefit will come at the expense of other customers if the rate code later receives a final increase in rates. That is true and would have happened in this case if IPL had applied the three criteria (i.e., temporary rates paid by Residential and LGS-Contract Demand customers would have been 1.4 and 2.5 percent higher,[9] respectively, than their final Settlement rates). However, if rate codes with proposed final reductions receive a temporary uniform percentage increase, then other customers will receive a temporary revenue benefit at their expense if the final rate reductions are later approved. Thus, there are potential inequities with either approach – neither one is perfect.

As first explained in Docket No. RPU-95-8,[10] the intent behind the Board's temporary rate design criteria was to minimize instances of customers paying substantially higher temporary rates than their proposed final rates. Specifically, the Board's intent was to "spread the agreed-upon temporary revenue increase in a way that more closely reflects the proposed final rates [in order to] lessen the risk of customers paying final rates that are lower than temporary rates without receiving a refund." The policy was not intended to produce perfect results. Rather, the purpose was to prevent examples of obvious disconnect between what the utility was proposing for final rates versus what it charged under temporary rates.[11] These three criteria have been the Board's established

[8] And as IPL correctly recognizes, the principle of otherwise holding the utility's tariff static continues to apply, holding off implementation of significant tariff changes such as IPL's proposed TBR until final rates.

[9] Based on total class revenue.

[10] Docket No. RPU-95-8, "Order Setting Temporary Rates and Approving Corporate Undertaking," October 30, 1995, pp. 3-5.

[11] In its "Order Setting Temporary Rates and Approving Corporate Undertaking" in Docket No. RPU-95-8, the Board cited examples of a proposed temporary increase of 30.3 percent versus a proposed final

regulatory principle for temporary rate design since Docket No. RPU-95-8 and were most recently applied in Docket No. RPU-2011-0001 (Iowa American Water Company).[12] Regarding their application in temporary rates implemented without Board approval, Iowa Code § 476.6(10) (b) states

> A public utility may choose to place in effect temporary rates, charges, schedules, or regulations without board review ten days after the filing under this section. If the utility chooses to place such rates, charges, schedules, or regulations in effect without board review, the utility shall file with the board a bond or other corporate undertaking approved by the board conditioned upon the refund in a manner prescribed by the board of amounts collected in excess of the amounts which would have been collected under rates, charges, schedules, or regulations finally approved by the board. *At the conclusion of the proceeding if the board determines that the temporary rates, charges, schedules, or regulations placed in effect under this paragraph were not based on previously established regulatory principles, the board shall consider ordering refunds based upon the overpayments made by each individual customer class, rate zone, or customer group*. (Emphasis added).

If the Board approves the Settlement Agreement, there will be no refunds to any of IPL's customers, which would effectively eliminate any refunds based on the differences between final rates and temporary rates. However, for purposes of future cases, staff recommends the Board clarify that its three criteria for temporary rate design first adopted in Docket No. RPU-95-8, further refined in Docket Nos. RPU-02-2 and RPU-02-7, and most recently applied in Docket No. RPU-2011-0001, is the established regulatory principle for temporary rate design, including temporary rates implemented under Iowa Code § 476.6(10) (b). The Board should also clarify that if a utility intends to implement temporary rates under Iowa Code § 476.6(10) (b) and foresees a potential conflict among the three rate design criteria, it can seek interpretive guidance from the Board through a declaratory ruling under 199 IAC 4 prior to filing its temporary rates.

VII. Weather Normalization Adjustment

Natural gas utilities in Iowa weather normalize the natural gas sales volumes for the weather sensitive customer classes at two specific times—annually through their purchased gas adjustment (PGA) filings and as part of any natural gas rate proceedings. The Settlement Agreement in this case did not specifically address the issue of weather normalization or billing determinants. However, the

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reduction of 0.9 percent, and a proposed temporary increase of 8.4 percent versus a proposed final reduction of 18.8 percent. (Order, p. 4).

[12] Docket No. RPU-2011-0001, "Order Setting Temporary Rates and Approving Corporate Undertaking," July, 28, 2011, pp. 18-22.

Settlement Agreement adopts the weather normalization revenue adjustment and billing determinants initially proposed by IPL for both interim and final rates (Settlement Attachments A and B).

In its initial testimony in this case, IPL explained that its weather normalization adjustment was calculated using a multiple linear regression analysis model. Model inputs included actual and 30-year normal heating-degree-days (HDDs) published by the National Oceanic and Atmospheric Administration (NOAA) for the same eight weather stations used in IPL's last rate case and its annual PGA forecast filing. IPL applied its weather normalization model to all rate codes in the residential class, the weather sensitive rate codes in the General Service class, and to all small volume transportation rate codes.

All of the investor-owned natural gas utilities in Iowa use what has become known as the PGA methodology in their annual PGA filings; and the Board also has a recent history of favoring the use of the PGA methodology in rate proceedings. However, the results of other methods (although not the methods themselves) have been approved when they have been part of a settlement as in this case.

On July 30, 2012, the Board issued an order directing IPL to file a weather normalization calculation using the methodology that it uses in its PGA filings which IPL provided on August 15, 2012. When comparing the weather normalization calculation that supports the Settlement Agreement versus the PGA methodology IPL filed on August 15, 2012, there are similarities and differences. Similarities include the use of the same weather stations and the use of NOAA's 30-year normal HDDs. The major difference is the complexity between the two models with the PGA methodology being less complex and more verifiable. Both models filed by IPL weather normalize the same rate codes; however, these rate codes are different from those normalized annually in the PGA filings[13].

The first table below shows test year volumes, weather normalized sales, and the percent change based on the Settlement Agreement methodology, the PGA methodology, and the PGA methodology applied only to the rate codes used in the PGA filing. The second table shows the associated revenue adjustments.

	Test Year Volumes Res and GS (Therms)	Weather Normalized Res and GS (Therms)	Percent Increased (Decreased)
IPL– Settlement Method	**25,068,431**	**24,655,774**	**(1.65%)**
IPL's Calculated PGA Method	25,068,431	24,961,827	(0.43%)
PGA Method / PGA Rate Codes	23,963,088	23,859,078	(0.43%)

[13] The rate codes for small volume transportation customers are typically not included in the PGA methodology, since the PGA does not apply to transportation customers.

	Total Revenue Adjustment
IPL– Settlement Method	**$(690,992)**
IPL's Calculated PGA Method	$(178,195)
PGA Method / PGA Rate Codes	$(173,972)

The purpose of the tables above is to point out that the different approaches achieve different results. The issue to be decided is whether the weather normalization adjustment included in the Settlement Agreement is reasonable in the context of the Settlement Agreement as a whole or whether the Settlement Agreement should be rejected and the weather normalization adjustment litigated. Staff believes the adjustment is reasonable in the context of the Settlement Agreement as a whole, especially given that the Settlement Agreement does not set precedent or establish ratemaking principles for any weather normalization method.

However, staff also recommends that in future cases, if IPL proposes alternative weather normalization methodologies, IPL be ordered to also file a weather normalization calculation using the PGA methodology applied to the same rate codes as in the PGA.

VIII. Tax Benefit Rider

Rate Design. IPL proposes to use special one-time tax savings to temporarily offset its proposed rate increase. The Settlement Agreement adopts IPL's initial proposal to flow-through to customers approximately $36 million in expected tax savings over a three-year period, by means of a Tax Benefit Rider (TBR).

Under its initial proposal, IPL would have front-loaded the TBR by flowing through 48 percent of the estimated benefits in the first year, 35 percent the second year, and 17 percent the third year; and would have allocated the benefits to the customer classes receiving rate increases under IPL's initial proposal, thus phasing-in the rate increases over a three-year period:

	Year 1	Year 2	Year 3	Year 4 (Full Rate Incr.)
Phased Benefit Offsets:	$17.2 million	$12.5 million	$ 6.3 million	-0-
Percent of Benefits:	48%	35%	17%	
Benefits by Customer Class:				
Residential	$14.2 million	$10.6 million	$ 5.4 million	-0-
General Service	$ 2.3 million	$ 1.5 million	$ 0.7 million	-0-
Large General Service [14]	-0-	-0-	-0-	-0-
LGS-Contract Demand	$ 0.7 million	$ 0.4 million	$ 0.2 million	-0-

[14] Under IPL's initial proposal, the Large General Service class as a whole would have received an overall net rate reduction, and thus no allocation of the TBR benefits.

The Settlement Agreement TBR is also designed to offset rate increases by customer class; but instead will spread the benefits in three equal installments of $12 million each, more than offsetting the final $10.5 million increase, thus delaying the increase rather than phasing it in (Settlement Schedule C):

	Year 1	Year 2	Year 3	Year 4 (Full Rate Incr.)
Phased Benefit Offsets:	$12 million	$12 million	$12 million	-0-
Percent of Benefits:	33.3%	33.3%	33.3%	
Benefits by Customer Class:				
Residential	$7.25 million	$7.25 million	$7.25 million	-0-
General Service	$3.58 million	$3.58 million	$3.58 million	-0-
Large General Service	$1.00 million	$1.00 million	$1.00 million	-0-
LGS-Contract Demand	$0.17 million	$0.17 million	$0.17 million	-0-

As in IPL's initial proposal, the offsetting benefits in the Settlement Agreement TBR are to be allocated in proportion to the class rate increases, and specifically designed to offset the customer charge increases of the Residential and General Service classes and the demand rate increase of the LGS-Contract Demand class (Settlement Schedules B, C):

Residential	
Current Customer Charge	$10.00/mth
Settlement Customer Charge Increase	$ 3.000/mth
Settlement TBR Offset Credit	($ 3.064/mth)
General Service	
Current Customer Charge	$19.94/mth
Settlement Customer Charge Increase	$20.06/mth
Settlement TBR Offset Credit	($11.72/mth)
Large General Service	
Settlement TBR Offset Credit – 10.1% of non-fuel non-EECR portion of monthly bill	
LGS-Contract Demand	
Current Demand Rate	$2.22660/dth
Settlement Demand Rate Increase	$0.28761/dth
Settlement TBR Offset Credit	($0.36400/dth)

Also as in IPL's initial proposal, the TBR offset credits will not be deducted from base tariff rates but rather will be reflected in a separate TBR rider; and the TBR offset credits will be shown as a separate line item on customer bills.[15]

Timing and Reconciliation. In its initial testimony, IPL explained that the three-year timing of the TBR provided assurance that benefits would not flow back to

[15] In its initial testimony, IPL explained that because the tax benefits were one-time events related to past tax years, it was more appropriate to flow them through as temporary credits rather than reductions in base tariff rates.

customers before the final amounts were known from the IRS, thus minimizing (but not eliminating) the risk that IPL might over-credit customers and have to recover the over-credited amounts from customers. IPL explained that the $36 million in total tax benefits was an estimate and that the final amounts, relating to different projects, would be determined according to the timing and outcome of IRS audits; and that the benefit amounts estimated for the second and third year of the TBR would be subject to adjustment before and during implementation, after the final amounts become known.

In its "Order Granting Intervention, Permission to Appear Pro Hoc Vice, and Directing Responses," issued July 30, 2012, the Board asked IPL about the timing of the TBR benefits and whether the risk of over-crediting benefits to customers could be eliminated. In its Response filed August 15, 2012, IPL stated that while the over-crediting risk could not be eliminated, the three-year period of the TBR would help minimize that risk.

In its initial testimony, IPL stated there were three categories of tax benefits: 1) proceeds from the flood ($4 million); 2) mixed service costs ($14 million); and 3) repair expenditures ($18 million). The $4 million relating to proceeds from the flood had been resolved by an IRS audit in 2010. The $14 million relating to the mixed service costs category had also largely been resolved in 2010, but might be impacted by the final outcome of repair expenditures. The $18 million in the repair expenditures category was expected to be resolved in the first quarter of 2013.[16]

In its Response filed August 15, 2012,[17] IPL referred to the direct testimony of witness Vognsen (pp. 20-22), which describes how during the course of the three-year TBR period, if the final amount sustained by IRS audit is less than the targeted amount, but greater than the amount already credited to IPL customers, IPL would adjust the TBR over the remaining time frame to reflect the lower amount; and if the final sustained amount turned out to be lower than the amount already credited to customers, IPL would discontinue the TBR immediately and proceed to the final reconciliation. In the final reconciliation process, IPL would either: a) refund any remaining un-credited benefit amounts to customers over a 12-month period; or b) collect any over-credited amounts over a 24-month period; after which IPL would terminate the TBR. Under the Settlement, IPL would conduct the same final reconciliation process, either at the conclusion of the three-year TBR period or, if need be, sooner.

By spreading the TBR benefits across three equal annual installments of $12 million each, rather than front-loading the benefits in the first year as originally proposed (i.e., $17.2 million in Year 1, $12.5 million in Year 2, and $6.3 million in Year 3), IPL further reduces the risk that it will over-credit customers during the

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[16] IPL witness Lenzen direct testimony, pp. 17-19, 21; IPL witness Janecek direct testimony, pp. 5-10.

[17] Response No. 10, pp. 14-15.

latter part of 2012 and early part of 2013, before the outcome of the IRS audit on repair expenditures is known. IPL has stated that it will either reduce or terminate the TBR if the final audit benefits are less than expected. For additional assurance, staff recommends the Board require IPL to file TBR reports every six months on the status of the IRS audit and amounts credited to date.

IX. Responses to September 21, 2012, Order

On September 21, 2012, the Board issued an order requesting IPL and the other parties to the Settlement Agreement to respond to certain questions about the tariff changes agreed to in the Settlement Agreement. The questions, summaries of the responses, and staff analysis are provided below.

A. Gas Service/Transportation Agreements, Sheet Nos. 264-284.

Question #1:

The Board is not clear about the reference to "producer's act of negligence." There does not appear to be another reference to "producer" in the agreement or a definition of the term. IPL should provide additional information concerning the meaning of this term in this context.

Response:

IPL states that the term "producer" means the actual entity providing the natural gas, either IPL, in the case of system-supplied gas to a customer, or the competitive natural gas provider, in the case of transportation customer. IPL uses the term "provider" to describe these entities.

Analysis:

Staff recommends the Board suggest to IPL that it change the term "producer" to "provider" in the tariffs filed in compliance with a Board order approving the Settlement Agreement. The term "provider" seems to more accurately reflect the entities described by IPL.

Question #2:

It appears there are only two differences between the Gas Service Agreement in Section 14.06 and the Gas Service Agreement—With Take or Pay in Section 14.07. One difference is the Gas Service Agreement is for a term of one year and the Gas Service Agreement—With Take or Pay is for a term of three years. The other difference is the addition of the following provision to the Gas Service Agreement—With Take or Pay:

> Section 4.c In the event facilities are extended by the Company to provide service, after the second full year of service, the Customer's billings for the second year of service will be reviewed to determine base revenue (total rate schedule charges, less charges applicable to energy efficiency programs and cost of gas supply). If Customer was billed less than the minimum annual base revenue (facility investment divided by three), required to support the $____ of facility extension (total facility extension investment less any initial advance or contribution), Customer will be assessed an advance or contribution, supplemental to any previous advance or contribution, to reduce the investment in the facility extension to the level supported by Customer's second-year base revenue. Notwithstanding the foregoing, in the event Company and Customer enter into a take or pay or contribution in aid of construction agreement for the extension of any facilities, the provisions of any such take or pay or contribution in aid of construction agreement shall be controlling in the event of a conflict with this Agreement.

IPL should provide an explanation of the purpose for a separate Gas Service Agreement—With Take or Pay, an explanation of subparagraph 4.c, and why the term of this agreement is three years.

Response:

IPL explains that the Take or Pay agreement proposed in the revised tariff addresses those situations where a seasonal customer that has significant fluctuations in usage, such as a grain dryer, requests a distribution main extension. Since Board rules require the utility to provide the distribution main extension at no cost to the customer if the construction costs for the extension are less than or equal to three times estimated base revenue and IPL has difficulty estimating annual usage because of the variability of usage, the Take or Pay agreement allows IPL to delay the calculation of the three times annual revenue until after two years of actual usage. IPL states that the Take or Pay agreement reduces the risk of loss for IPL and is a more favorable alternative for the seasonal customer. IPL states that the Take or Pay agreement is only offered if the distribution main extension exceeds $15,000 and the customer is seasonal.

Analysis:

Staff understands that the Take or Pay agreement may meet the requirements of 199 IAC 19.3(10)"f" as a more favorable arrangement to pay for a distribution main extension. However, the language in the revised tariff does not limit the Take or Pay agreement to those situations described by IPL, i.e. costs are over $15,000 and the customer is seasonal. Staff recommends the Board suggest to

IPL that it rename the Take or Pay agreement as a "Gas Service Agreement-Seasonal" and include the two criteria for being offered the agreement, distribution main extension cost over $15,000 and the customer is seasonal.

Question #3:

The Board also has questions about the provisions in subparagraph 4.c and how the provisions comply with the Board's extension rules at 199 IAC 19.3(10). The Board's extension rules provide that extensions of distribution mains are to be paid for by an advance for construction with refunds, when the estimated construction cost exceeds three times the estimated base revenue calculated on the basis of similarly-situated customers. 199 IAC 19.3(10)"c"(1). Service line extensions are to be paid for by a contribution in aid of construction, without refunds, if the extension exceeds 50 feet or 100 feet on private property, depending on the type of pipe installed. 199 IAC 19.3(10)"d."

The provisions in subparagraph 4.c appear to allow IPL to recalculate either the advance for construction or contribution in aid of construction after the first year of service to the customer. There is no provision for this recalculation in the Board's rule. IPL should explain the purpose of the provision, how it is intended to be applied, and whether the provision is consistent with the Board's extension rules.

In addition, the reference in the last sentence in subparagraph 4.c appears to be potentially ambiguous since the subparagraph is part of the Gas Service Agreement—With Take or Pay and the last sentence provides that some separate take or pay agreement would take precedence over the agreement provided for in IPL's tariff. A similar ambiguity appears to exist with regard to the reference to a contribution in aid of construction agreement in the last sentence. These references appear to address the situation where IPL has contracted with the customer under an agreement different than the agreement set out in Section 14.07. IPL should explain the purpose of the last sentence, what other take or pay or contribution in aid of construction agreements are being described, and why outside agreements should take precedence over the agreement in the tariff.

Response:

IPL states that the response to Question #2 provides the response to the question about recalculation of the estimated annual revenue. IPL states that the last sentence in Section 14.07 means that a customer with two separate distribution main agreements may not use estimated revenue recovery from one agreement to be used to offset construction costs in a separate agreement.

Analysis:

Staff accepts IPL's response as reasonable and has no recommendations regarding the language in the last sentence of Section 14.07.

B. Interruptible Service Requirements and Excess Facilities Charge, Sheet Nos. 40-47

IPL currently requires all new interruptible customers to install telemetering at the customer's cost without an explanation of how the customer will be charged for those costs. IPL states that telemetering allows it to verify compliance when IPL calls for service interruptions. Legacy customers (those that were interruptible customers prior to August 22, 2003) are currently exempt from this requirement. IPL proposes to remove the exemption for legacy customers and require all interruptible customers to have telemetering. IPL states that those customers affected will be given a reasonable amount of time to comply, and will pay for the new telemetering through IPL's proposed Excess Facilities Charge. IPL states that the excess facilities provision provides customers an option when they request the installation of facilities beyond those afforded by IPL’s standard tariff offering.

IPL proposes to add an Excess Facilities Charge, similar to the Excess Facilities Charge in its electric tariff, to its gas tariffs for Residential, General Service, and Large General Service. The Excess Facilities Charge will be a monthly charge equal to 1.6 percent of IPL’s investment cost for any facilities that are in excess of those required for standard service. IPL states that the Excess Facilities Charge provision provides customers an option when they request the installation of facilities beyond those afforded by IPL’s standard tariff offering.

The September 21, 2012, order stated that the Board has concerns about the reasonableness of requiring legacy customers to install telemetry equipment and the application of the Excess Facilities Charge to interruptible customers. IPL does not have a separate interruptible customer class and offers interruptible service through its General Service and Large General Service tariffs. Under those tariffs, customers may choose either firm or interruptible service for all or a part of their gas service. At one time, interruptible customers paid lower distribution rates on the utility system and lower gas costs through the purchased gas adjustment (PGA) rates. Currently, IPL's interruptible customers pay the same distribution rate as firm service customers. This is because IPL no longer has constraints on its distribution system that require calls for interruption which, in effect, allows interruptible customers to receive the equivalent of firm service on IPL’s distribution system. The financial benefit of being an interruptible customer comes from lower gas costs through the PGA. Interruptible customers do not pay interstate pipeline demand charges in their PGAs and interruptions would likely only be called if there were capacity or supply constraints on the interstate pipeline system.

IPL's current tariff states that new or existing interruptible customers (after August 22, 2003) are required to install telemetering equipment at their cost. IPL proposes adding the following language to its Residential, General Service, and Large General Service tariffs as an option for legacy and new interruptible customers to pay for telemetry equipment:

> Any standard facilities required to provide non-standard service, in excess of that permitted under this Schedule or the Company's General Rules and Regulations, shall be provided at a monthly amount equal to 1.6% of the Company's investment in such facilities.

The proposed language is similar to language in IPL's transportation service tariff; however, the language in the transportation service tariff specifically references telemetry equipment as shown below:

> The Customer shall be responsible for all costs associated with any specific plant such as telemetering required in providing contract carriage service to the Customer. The additional charge is 1.6% per month of the Company's additional investment.

The proposed Excess Facilities Charge language is generic and appears to include facilities other than telemetry equipment. The Excess Facilities Charge language is also proposed for Residential service where transportation and interruptible service is not available. This raises the question of what other plant costs customers might be required to install and pay for through this provision.

Further, it is not clear whether there is a limit to the amount of time a customer will be required to pay the Excess Facilities Charge. It appears that once the additional plant has been installed, the customer would pay the monthly Excess Facilities Charge indefinitely. IPL suggests that the Excess Facilities Charge mechanism is a financing option available to customers when the customer requests installation of additional plant, but the proposed tariff language appears prescriptive rather than optional.

Question #4:

IPL should provide additional information to assist the Board in determining the reasonableness of the proposed tariff changes pertaining to interruptible service and the Excess Facilities Charges as proposed by IPL in this docket and agreed to in the Settlement. In addition, the Board is requesting the additional information described below.

1. Provide the following information separately for the General Service class and the Large General Service class, for each of the years 2003-2012:

   a) The number of interruptible service customers at the beginning of the year;
   b) The number of interruptible customers with telemetry equipment at the beginning of the year;
   c) The number of customers that initiated interruptible service;
   d) The number of customers initiating interruptible service that were required to install telemetry equipment;
   e) The number of customers that terminated interruptible service; and
   f) The number of service interruptions called by IPL during the year including, for each interruption, the date, duration, and number of customers interrupted.

Response:

IPL provided charts showing the number of small and large interruptible customers, and the number of interruptions by year since 2003 which is summarized below.

Year	# of **Small** Interruptible Customers	# of **Large** Interruptible Customers	# of Interrupted
2003	488	114	0
2004	472	156	0
2005	475	164	0
2006	432	155	0
2007	401	160	0
2008	391	159	0
2009	388	157	0
2010	373	151	0
2011	346	148	0
2012	315	99	0

IPL states that it currently has eight system gas interruptible customers that have telemetry devices and only one of those customers is paying a charge for telemetering costs. The customers that are not paying for telemetering costs are former transportation customers that were paying an excess facilities charge as transportation customers but the charge is no longer billed since these customers have moved to system gas under the interruptible tariff.

Question #5:

For each interruptible customer with telemetry equipment, provide:

a) The date the customer initiated interruptible service;
b) The installed cost of the telemetry equipment;
c) What payment options the customer was given to pay for the telemetry equipment, and
d) The total amount collected from the customer, to date, for the telemetry equipment.

Response:

IPL states that the only payment choice it will offer for telemetering costs is an excess facilities charge. IPL further states that it has only one interruptible customer paying for telemetering. The cost of that one customer's telemetering facilities was $1,374.78. The one customer paying for telemetering is paying a charge of $21.99 per month. The customer pays this charge because the customer became an interruptible customer in 2006. To date, this customer has paid $1,517.31 in total.

Question # 6:

Provide the current estimated cost of telemetry equipment for a typical customer.

Response:

Current cost for installation of telemetering metering equipment is $1,400 to $3,000 for transportation customers. A gas transportation customer would pay an excess facilities charge in the range of $22.00 to $448.00 per month. IPL states that it is currently investigating a technology that could remove the need to install telemetry for interruptible customers. IPL states that it is currently in the planning process for upgrading its natural gas handheld meter reading devices for the Spring/Summer of 2013. IPL is developing the incremental cost of these new devices. Since these new devices will eliminate the need for telemetry equipment for interruptible customers, IPL is amenable to language changes to reflect the new technology.

Question #7:

Provide a description or explanation of the terms “standard facilities” and “non-standard service” in the Excess Facilities Charge tariff provision as applied to Residential, General Service, and Large General Service customers.

Response:

IPL states that the term “standard service” refers to service that consist of one service line, one regulator, one point of delivery, and one meter. Where a customer requests multiple metering points, IPL charges a separate tariffed rate for each metering point. IPL considers non-standard installation where 2 multiple metering points are provided. IPL states that the customer is responsible for the incremental costs of non-standard facilities since these are optional and IPL's customer rates do not reflect the incremental costs associated with the non-standard facilities.

IPL states that standard service includes meter reading once a month. Requests for actual usage data, either daily or hourly, is provided through IPL's metered data management system and is considered non-standard service. These types of non-standard service require telemetering and would be subject to the Excess Facilities Charge.

Question #8:

Is the proposed Excess Facilities Charge an optional or mandatory method of customer payment for excess facilities required to provide non-standard service? If optional, can the customer opt to pay the full cost of the excess facilities up front?

Response: IPL states that the costs of non-standard metering are always charged through an excess facilities provision. IPL does not offer a customer the option of paying for metering upfront. IPL requires the use of the Excess Facilities Charge since the charge includes the ongoing maintenance costs of the facilities since IPL has an obligation to replace the facilities with like facilities should the facilities fail at any time in the future.

Question #9:

If telemetry equipment is installed for an interruptible customer and those costs are recovered through an Excess Facilities Charge, will that charge be recovered indefinitely?

Response:

Yes. The charges go on indefinitely since IPL is responsible for maintenance and replacement of facilities without any incremental cost to the customer. IPL owns the facilities.

Question #10:

Explain the basis and rationale for the 1.6 percent factor used in calculating the monthly Excess Facilities Charges.

Response:

IPL states that the proposed excess facilities charge is the same rate that is used in the gas transportation tariff. This is also the same rate used in IPL's electric tariffs for excess facilities. The rate reflects annualized cost recovery of the installed cost of the facilities as well as insurance, property taxes, and operations and maintenance expenses. The provision has been in IPL's gas transportation tariff for 20 years.

Question #11:

Describe the circumstances when the Excess Facilities Charge would be applicable to residential customers.

Response:

IPL states that currently residential customers are not offered the interruptible option and there is no requirement for daily usage data. However, IPL foresees the possibility that a residential customer may at some point want hourly data and may want telemetry installed. If a residential customer requested hourly data, then telemetry equipment would be required and the residential customer would be charged the excess facilities charge.

Analysis and Recommendation:

The information provided by IPL shows that the number of IPL's interruptible customers has steadily declined since 2003. Given this decline, the small number of interruptible customers in total, and the fact that IPL has not interrupted service since before 2003, IPL could likely address its operational needs to monitor customer interruptions by some means other than requiring interruptible customers to incur the expense of telemetry equipment. IPL managed curtailment of distribution system interruptible customers for many years prior to the availability of telemetry equipment during a period when interruptions were more frequent than they are now. Further, the customer data IPL provided also shows that in 2012 approximately 75 percent of IPL's interruptible customers are considered small customers. The additional costs of telemetering equipment may have a significant financial impact on these customers.

Staff understands from IPL's October 5, 2012, response that IPL is amenable to a change in the proposed language regarding telemetry being required for interruptible customers as agreed to in the Settlement Agreement. IPL indicates that new technology may make the need for telemetry equipment unnecessary. Given that telemetry equipment may be unnecessary and the fact that legacy customers are not currently required to have telemetering equipment, staff does not consider the proposed tariff provisions allowing IPL to require telemetry equipment for legacy customers to be reasonable. In addition, IPL has not interrupted service since before 2003 and IPL states that it only has one interruptible customer currently paying for telemetry equipment through an Excess Facilities Charge.

In light of these facts, staff believes the Board should direct that IPL withdraw the proposed revisions to its interruptible service that require existing or legacy interruptible customers to install telemetry equipment. Staff believes the Board should also direct IPL to withdraw the proposed Excess Facilities Charge provisions in the Residential, General Service, Large General Service – Contract Demand, and Large General Service tariffs, and the Gas Service Agreement and Gas Service Agreement-Take or Pay.

It appears from the description of the purpose of the Excess Facilities Charge that the charge is designed to provide for upkeep of telemetry equipment. Withdrawal of the requirement for telemetry removes the primary reason for the Excess Facilities Charge. In addition, the language in the Excess Facilities Charge is ambiguous and may not limit the charge to customers with telemetry equipment. The Board should suggest to IPL that IPL review the need for an Excess Facilities Charge and provide a clearer explanation regarding the types of facilities the charge would be applied to if it proposes a similar charge in the future.

Staff also questions the charging of an Excess Facilities Charge to one interruptible customer. This appears to be treatment of one customer different than other similar customers. In addition, IPL does not have specific language in its tariff that allows IPL to charge an Excess Facilities Charge. Since IPL will be withdrawing the proposed Excess Facilities Charge in its compliance tariffs, staff believes it should consider discontinuing this charge to the one customer. It appears from the information provided by IPL that the customer paying the Excess Facilities Charge has already paid more than the cost of the installation of the telemetry equipment.

If IPL agrees to withdraw the proposed revisions customers will be provided interruptible service under the current tariff provisions. The current provisions allow IPL to require new interruptible customers to install telemetry equipment. Staff believes the Board should suggest to IPL that it review this tariff provision in light of the potential for new technology making the requirement unnecessary. IPL will then have the opportunity to propose new tariff revisions once it has a fully developed plan that considers the new technology, the cost of additional monitoring equipment, and the need for additional monitoring equipment.

X. Overall Settlement

Staff believes the increase in revenue and rates presented in the Settlement Agreement are reasonable based upon the prefiled testimony. Staff has suggestions with regard to the tariff provisions agreed to in the Settlement Agreement that staff recommends the Board include in the order approving the Settlement Agreement. Staff does not believe these tariff provisions are significant enough for the Board to reject the Settlement Agreement; however, staff does believe that IPL should be encouraged to address the changes suggested by staff.

Staff believes the Board can find that the Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest.

XI. Recommendation

Direct the General Counsel to prepare an order approving the Settlement Agreement: 1. Canceling the hearing; 2. Directing the tariff changes addressed by staff above; and 3. Require TBR reports. The order should also clarify that the Board's three criteria for temporary rate design described in the body of this memorandum are the established regulatory principles for temporary rate design, including temporary rates implemented under Iowa Code § 476.6(10)(b). Additionally, the order should indicate that in future cases, if IPL proposes alternative weather normalization methodologies, IPL should also file a weather normalization calculation using the PGA methodology applied to the same rate codes as in the PGA.

RECOMMENDATION APPROVED

IOWA UTILITIES BOARD

/s/ Elizabeth S. Jacobs *11-9-12*
Date

/s/ Darrell Hanson *11-15-12*
Date

/s/ Swati A. Dandekar *11-13-12*
Date